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Setting the standard in structured products.

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

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Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

FINANCIAL PREFERRED SECURITIES CORPORATION

ANNUAL REPORT 2007

Financial Preferred Securities Corporation

Financial Preferred Securities Corporation (the "Corporation" or "Financial Preferred") completed its initial public offering and became listed on the Toronto Stock Exchange on November 17, 2006. The Corporation was created to provide investors with exposure to a high quality notional portfolio of U.S. Preferred Securities of primarily financial services companies listed on the New York Stock Exchange. The preferred shares will be redeemed by the Corporation on December 31, 2016, unless extended or redeemed earlier at the request of the shareholders.

The Corporation's paid quarterly dividends of $0.3125 per share for a total of $1.25 per share for 2007. There were no dividends paid in 2006 as the Corporation commenced operations in November 2006 with the first dividend record date of February 28, 2007.

INVESTMENT HIGHLIGHTS:

	2007	2006
Net Assets per Share [(1)]	**$ 18.07**	$ 23.78
Market Price per Share [(1)]	**$ 16.00**	$ 25.69
Trading Premium (Discount)	**11.4%**	8.0%
Cash Dividends per Share	**$ 1.25**	–
12 Month Trailing Yield [(2)]	**7.8%**	n/a
Market Capitalization ($ millions)	**$ 23.6**	$ 31.1

[(1)] Net assets and market price are based on year end values.

[(2)] Trailing yield is based on the last 12 months cash dividends declared expressed as a percentage of market price.

Management Report of Fund Performance

(March 20, 2008)

This annual report for the year ended December 31, 2007 and for the period from commencement of operations on November 16, 2006 to December 31, 2006 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Financial Preferred Securities Corporation.

Shareholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Corporation's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Financial Preferred's investment objectives are to provide investors with a stable stream of tax efficient quarterly dividends consisting of capital gains dividends and return of capital and to preserve net asset value. These objectives will be achieved by investing in a high quality equal-weight notional portfolio of U.S. Preferred Securities issued primarily by NYSE listed financial services companies carrying an average Standard and Poors rating of A-. The Corporation has been structured in a low-cost, tax efficient manner and will be substantially hedged to the Canadian dollar through a Forward Agreement.

RISK

There are a number of risks associated with an investment in Financial Preferred. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities within the notional portfolio which have a direct effect on the net asset value of the Corporation. Income risk arises from a number of factors related to the operational performance of the issuers of the securities in the Corporation's notional portfolio. These risks include the effects of fluctuations in commodity prices, exchange rates and interest rates and include general business operation risks, any of which may affect the issuers' income. The notional portfolio of preferred securities and thus investors are exposed to interest rate risk, since the price of fixed income securities such as preferred securities will vary as interest rates rise and fall. The $Cdn/$U.S. 90 day rolling hedge embedded into the forward agreement in an amount of not less than 50% of the value of the notional portfolio mitigates the impact of currency exchange movements. Diversification and semi-annual rebalancing by the Corporation's rebalancing advisor of the securities held in the portfolio may reduce these risks.

RESULTS OF OPERATIONS

The preferred share market for investment grade U.S. financial institutions came under severe pressure in November and December 2007 during the turmoil in the sub-prime and credit derivatives market. Consequently, the spread differential between the yield on investment grade preferred shares and the 10 year U.S. treasury bond skyrocketed which produced a significant decline in the underlying preferred share prices.

As a result of these negative market conditions and the Fund's annual redemption, Financial Preferred's net assets declined from $28.8 million at December 31, 2006 to $26.6 million at the end of 2007. While the Fund raised additional proceeds on a secondary offering of shares in June 2007, portfolio valuation declines in the U.S. Preferred Securities and the annual November redemption contributed to an overall decline in net assets. On June 6, 2007, the Corporation completed an additional offering of 500,000 preferred shares at a price of $24.30 per share for gross cash proceeds of $12.15 million which was used to supplement its existing equal weighted notional portfolio of U.S. preferred securities. On November 30, 2007, shareholders exercised their right to redeem a total of 235,462 shares for a total cost of $4.45 million or $18.90 per share. The Corporation's net assets declined to $18.07 per share at December 31, 2007 from $23.78 per share at December 31, 2006 primarily due to valuation declines.

The Corporation's market price also declined significantly in 2007, closing at $16.00 per share on December 31, 2007, down from $25.69 per share at the end of 2006 as its net assets decreased and the trading discount widened. Financial Preferred's market price decline plus quarterly cash dividends produced a negative 33.9% total return over the year, while the Corporation generated a negative total return of 19.3% on a net assets basis.

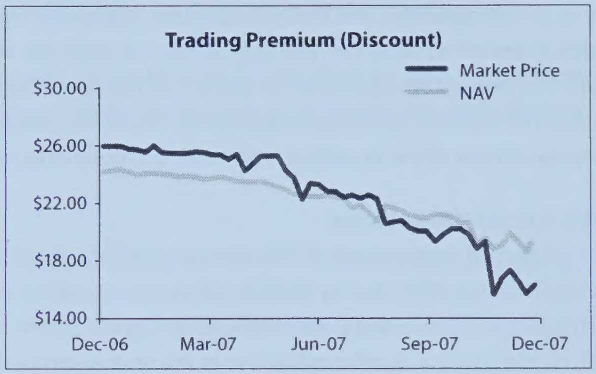
The Corporation's revenue of $438 in 2007 and $937 in the short fiscal period from November 17, 2006 to December 31, 2006 relates to interest income earned on surplus cash balances held. Administrative and rebalancing advisory fees, which are paid in shares and calculated in reference to the Corporation's net asset value, totaled $0.17 million compared to $13,989 for 2006. General and administration costs, including other expenses, increased to $0.16 million during 2007 up from $0.02 million in 2006. In addition, the Corporation paid a forward fee of $0.13 million to the counterparty of the Forward Agreement with $0.02 million paid in the prior year. After total expenses of $0.46 million, the Corporation generated a net investment loss of $0.46 million or a loss of $0.31 per share for 2007 compared to a net investment loss of $0.05 million or a loss of $0.04 per share in the prior year.

Financial Preferred realized losses of $0.85 million on dispositions of certain Canadian holdings during the year while unrealized losses on the Forward Agreement were $5.92 million due to the portfolio valuation depreciation and the weakening U.S. dollar. As a result, the Corporation posted total results of operations of negative $7.23 million or negative $4.90 per share for the year. In the prior period, an unrealized gain of $0.54 million resulted in total results of operation of $0.49 million or $0.42 per unit. During 2007, the Corporation paid four quarterly dividends of $0.3125 per share to shareholders for a total of $1.25 per share or $1.8 million.

The Fund's portfolio mix remained unchanged in terms of its U.S. Preferred Securities despite the semi-annual rebalancings that occurred in June and December 2007. The Corporation continued to maintain an equal-weight notional portfolio of U.S. Preferred Securities carrying an average Standard & Poors rating of A-. The number of preferred securities in the notional portfolio increased from 32 securities at December 31, 2006 to 42 securities at December 31, 2007.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2007, Financial Preferred's share price traded above its net asset value with an average premium of 0.8% compared to an average premium of 7.5% for 2006. With the current weakness in the Corporation's net asset value, the share price has commenced trading at significant discount to its net asset value.



On October 10, 2007, the Corporation entered into a normal course issuer bid whereby a total of 171,000 preferred shares may be repurchased for cancellation over a period of twelve months. For the year ended December 31, 2007, the Corporation had repurchased 7,500 preferred shares pursuant to this bid at an average cost of $19.68 per preferred share.

RECENT DEVELOPMENTS

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Financial Preferred's three person Independent Review Committee ("IRC") was formed on April 1, 2007 and became fully operational on November 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures were adopted on November 1, 2007 and the Corporation was in full compliance with NI 81-107 at that time.

New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Corporation is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. There was no adjustment made to the opening net assets in the Statement of Changes in Net Assets at December 31, 2006 with respect to following section 3855.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. The Fund's forward agreement has not been designated as a hedge for accounting purposes and has classified it as held for trading assets and recorded the fair value of this instrument on the statement of net assets. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

As outlined in National Instrument 81-106 Section 14.2, the net asset value ("NAV") of an investment fund is to be calculated in accordance with Canadian GAAP. The Canadian Securities Administrators ("CSA") granted temporary relief to investment funds from complying with Section 3855 for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements. This relief period has been extended until September 30, 2008. The CSA has proposed amendments to NI 81-106 that will permit funds to have two different net asset values; one for financial statements which will be prepared in accordance with Canadian GAAP (referred to as "net assets" or "net assets per unit"); and another for all other purposes (referred to as "net asset value" or "net asset value per unit"). Until that time, the Corporation intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements. This Management Report of Fund Performance has been prepared based on the proposed amendments and the December 31, 2007 annual financial statements have been presented in accordance with the new accounting rules.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices, foreign exchange rates and stock market volatility. Our

actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

RELATED PARTY TRANSACTIONS

CGF Funds Management Ltd. is the administrator of Financial Preferred, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 0.50% of the aggregate average weekly net asset value of the Corporation. The fee is payable in shares or cash at the option of the administrator, monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Corporation.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Corporation and are intended to help the reader understand the Corporations' financial performance. This information is derived from the Corporations' audited financial statements for each year since inception to December 31, 2007.

Net Assets per Share ("NAPS")

	2007	2006 [1]
NAPS, beginning of period	**$ 23.78**	$ 23.38
Increase (decrease) from operations:		
Total revenue	**–**	–
Total expenses	**(0.31)**	(0.04)
Realized gains (losses)	**(0.58)**	–
Unrealized gains (losses)	**(4.01)**	0.46
Total increase (decrease) from operations	**(4.90)**	0.42
Distributions:		
From net investment income	**–**	–
From capital gains	**–**	–
Return of capital	**1.25**	–
Total cash dividends	**1.25**	–
NAPS, end of period	**$ 18.07**	$ 23.78

[1] The Corporation commenced operations on November 17, 2006.

NAPS and cash dividends per share are based on the actual number of shares outstanding at the time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial period. This schedule is not a reconciliation of NAPS since it does not reflect shareholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2007	2006
Net assets ($ 000's)	**$ 26,647**	$ 28,773
Number of shares outstanding	**1,474,882**	1,210,000
Management expense ratio	**1.43%**	1.56%
Portfolio turnover ratio	**30.41%**	0.00%
Trading expense ratio	**0.00%**	0.00%
Closing market price	**$ 16.00**	$ 25.69

Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively a fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

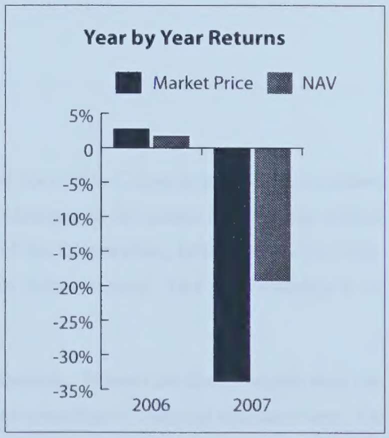
MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and rebalancing advisor fees are based upon 0.5% of the aggregate average weekly net asset value of the Corporation. The fee is payable in shares or cash at the option of the administrator, monthly in arrears. Shaunessy Investment Counsel Inc., as rebalancing advisor to the Corporation, provides rebalancing advisory services to the Corporation in exchange for its share of the management fee. These fees represent payment for the administrative and rebalancing advisory services provided to the Corporation.

PAST PERFORMANCE

Financial Preferred's performance number represents the compound total return over the period from inception on November 17, 2006 to December 31, 2007. Total return is based upon both the Corporation's change in market price and net assets per share plus the reinvestment of all dividends in additional shares of the Corporation.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced return. Past performance of the Corporation does not necessarily indicate how it will perform in the future.



ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Financial Preferred based on market price and net assets per share for the periods indicated to December 31, 2007.

	1 Year	Since inception
Financial Preferred (market price)	(33.89%)	(29.12%)
Financial Preferred (net assets)	(19.34%)	(16.16%)

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

Net Assets: $26,647,109

Portfolio by Sector	% of Net Assets
Forward Agreement	99.3%
Cash and Term Deposits	0.6%
Assets, net of other liabilities	0.1%
Total Net Assets	100.0%

Management's Responsibility Statement

The financial statements of Financial Preferred Securities Corporation have been prepared by CGF Funds Management Ltd. ("CGFML") and approved by the Board of Directors of CFGML. CFGML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CGFML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Corporation are described in Note 2 to the financial statements.

The Board of Directors of CGFML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CGFML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
CGF Funds Management Ltd.

Darren K. Duncan
Chief Financial Officer
CGF Funds Management Ltd.

March 20, 2008

Auditors' Report to Shareholders

To the Shareholders of Financial Preferred Securities Corporation

We have audited the statements of net assets and investments of Financial Preferred Securities Corporation as at December 31, 2007 and 2006 and the statements of operations and comprehensive income and changes in net assets for the year ended December 31, 2007 and for the period from September 25, 2006, date of incorporation of the Corporation, to December 31, 2006. These financial statements are the responsibility of management of the Corporation's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Corporation as at December 31, 2007 and 2006 and the results of its operations and the changes in its net assets for the year ended December 31, 2007 and for the period from September 25, 2006, the date of incorporation of the Corporation, to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 20, 2008

Statement of Net Assets

As at December 31	2007	2006
Assets		
Investments, at market (note 5)	$ 26,472,031	$ 28,859,077
Cash and term deposits	172,719	420,937
Prepaid expenses	7,832	–
	26,652,582	29,280,014
Liabilities		
Accounts payable and accrued liabilities	5,473	507,449
Net Assets representing Shareholders' Equity	$ 26,647,109	$ 28,772,565
Shares outstanding (note 3)	1,474,882	1,210,000
Net Assets per share	$ 18.07	$ 23.78

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations & Comprehensive Income

	For the year ended December 31, 2007	For the period from September 25 to December 31, 2006
Revenue		
Interest income	$ 438	$ 937
	438	937
Expenses		
Administrative and rebalancing advisory fees (note 4)	170,790	13,989
Forward fee (note 5)	129,405	15,000
General and administration costs	76,431	7,647
Audit fees	24,336	10,600
Reporting costs	18,194	5,019
Trustee fees	17,146	204
Directors fees	13,073	–
Legal fees	12,847	65
Custodial fees	1,276	1,176
Portfolio transaction costs	375	–
	463,873	53,700
Net investment income (loss)	(463,435)	(52,763)
Net realized gain (loss) on sale of investments	(851,257)	–
Net change in unrealized gain (loss) on investments	(5,919,900)	541,578
Total results of operations and comprehensive income	$ (7,234,592)	$ 488,815
Results of operations per share [1]		
Net investment income (loss)	$ (0.31)	$ (0.04)
Net realized gain on sale of investments	(0.58)	–
Net change in unrealized gain (loss) on investments	(4.01)	0.46
	$ (4.90)	$ 0.42

[1] Based on the weighted average number of shares outstanding.

see accompanying notes

Statement of Changes in Net Assets

	For the year ended December 31, 2007	For the period from September 25 to December 31, 2006
Net Assets – beginning of period	$ 28,772,565	$ –
Operations:		
Net investment income (loss)	(463,435)	(52,763)
Net realized gain (loss) on sale on investments	(851,257)	–
Net change in unrealized gain (loss) on investments	(5,919,900)	541,578
	(7,234,592)	488,815
Shareholder Transactions:		
Issuance of shares, net	11,534,689	28,283,750
Dividends to shareholders	(1,827,746)	–
Redemption of shares	(4,450,232)	–
Repurchase of shares	(147,575)	–
	5,109,136	28,283,750
Net Assets – end of period	$ 26,647,109	$ 28,772,565
Dividends per share	$ 1.25	$ –

see accompanying notes

Statement of Investments

	December 31, 2007		December 31, 2006	
	Cost	Market Value	Cost	Market Value
Forward Agreement (note 5)	$ 31,850,353	$ 26,472,031	$ 28,317,499	$ 28,859,077
Cash and Term Deposits	172,719	172,719	420,937	420,937
Total	$ 32,023,072	$ 26,644,750	$ 28,738,436	$ 29,280,014

Notes to Financial Statements

December 31, 2007 and 2006

1. STRUCTURE OF THE CORPORATION

Financial Preferred Securities Corporation (the "Corporation" or "Financial Preferred") is a corporation established under the laws of Alberta on September 25, 2006. The Corporation commenced operations on November 17, 2006, when it completed its initial public offering. The Corporation's preferred shares will be redeemed by the Corporation on December 31, 2016, unless extended or redeemed earlier at the request of the shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and term deposits

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date. The Forward Agreement is recorded at its fair value on the valuation date and changes in the fair value at each valuation date are recorded on the Statement of Operations and Comprehensive income.

(c) Canadian income taxes

The Corporation qualified as a mutual fund corporation within the meaning of the Income Tax Act (Canada). Provided the Corporation distributes to its shareholders its net income for tax purposes, the Corporation will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income will be allocated to shareholders, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Corporation is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. There was no adjustment made to the opening net assets in the Statement of Changes in Net Assets at December 31, 2006 with respect to following section 3855.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. The Corporation's forward agreement has not been designated as a hedge for accounting purposes and has classified it as held for trading assets and recorded the fair value of this instrument on the statement of net assets. Portfolio investments and forward agreement were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

The fair values of the Corporation's financial instruments which are comprised of cash and term deposits, revenue receivable, investments and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of these instruments.

(f) Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Corporation in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

3. SHAREHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Corporation consists of an unlimited number of preferred shares and common shares.

Issued and outstanding	**December 31, 2007**		December 31, 2006	
	Number	**Amount**	Number	Amount
Preferred shares – beginning of period	**1,210,000**	**$ 28,283,750**	–	$ –
Issued for cash:				
Initial public offering	–	–	1,120,000	28,000,000
Over-allotment provision	–	–	90,000	2,250,000
Secondary offering	**500,000**	**12,150,000**	–	–
Agents' fees and issue costs	–	**(789,750)**	–	(1,966,250)
Issued for services (note 4)	**7,844**	**174,439**	–	–
Redemption of shares	**(235,462)**	**(4,450,232)**	–	–
Repurchase of shares	**(7,500)**	**(147,575)**	–	–
Preferred shares – end of period	**1,474,882**	**$ 35,220,632**	1,210,000	$ 28,283,750

The weighted average number of shares outstanding for the year ended December 31, 2007 was 1,477,977 shares (2006 - 1,174,012 shares).

On June 6, 2007, the Corporation completed a secondary offering of 500,000 preferred shares at a price of $24.30 per share. Gross proceeds of the offering of $12.15 million were used to supplement the existing equal weighted notional portfolio of U.S. preferred securities.

The Corporation's preferred shares may be surrendered for redemption on demand at any time by the shareholder, and subject to the ability of the Corporation to re-circulate the surrendered shares, at a price equal to the lesser of 95% of the market price of the preferred shares during the ten trading days prior to redemption or the closing price on the redemption notice date. The preferred shares may also be redeemed annually each November, at a price equal to the net realized proceeds per share calculated on the redemption date. On November 30, 2007, a total of 235,462 trust units were redeemed for a total of $4.5 million or $18.90 per unit.

On October 10, 2007, the Corporation entered into a normal course issuer bid whereby a total of 171,000 preferred shares may be repurchased for cancellation over a period of twelve months. For the year ended December 31, 2007, the Corporation had repurchased 7,500 preferred shares pursuant to this bid at an average cost of $19.68 per preferred share.

4. ADMINISTRATIVE AND REBALANCING ADVISOR FEES / DIRECTORS' FEES

CGF Funds Management Ltd. ("CGFML") is the administrator of the Corporation and therefore a related party to the Corporation. Shaunessy Investment Counsel Inc. is the rebalancing advisor of the Corporation. Pursuant to the administrative services and rebalancing advisory agreements, total annual administrative and rebalancing advisory fees are based upon 0.50% of the aggregate average weekly net asset value of the Corporation. The fee is payable in shares or cash, at the option of the administrator, monthly in arrears. For the year ended December 31, 2007, the Corporation issued 7,844 preferred shares and recorded an expense of $170,790 (2006 - 520 preferred shares and an expense of $13,989) in respect of the administrative and rebalancing advisory fees earned during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2007, included in accounts payable were amounts owed to CGFML of $5,473 (2006 - $494,253 included in accounts payable).

5. FORWARD AGREEMENT AND FORWARD FEES

The Corporation entered into a Forward Agreement with TD Global Finance Securities ("TDGF") where in the Canadian securities purchased with the initial net proceeds and subsequent offering net proceeds were sold forward to TDGF at a forward price determined with reference to the net value of a diversified basket of high quality (BBB or higher as rated by S&P) U.S. Preferred Securities such that the Corporation will obtain indirect exposure to the performance of the U.S. Preferred Securities. The U.S. Preferred Securities consisted of the following as at December 31, 2007.

Number of Shares		Cost (US$)	Market Value (US$)
30,821	Aegon 6.375%	$ 797,484	$ 608,715
30,698	Aegon 6.5%	790,958	617,644
29,616	BAC 6.204%	782,124	642,667
32,223	BAC Cap 6.0% VIII	791,084	639,304
31,492	BAC Cap 6.25% X	783,156	645,901
29,847	BAC Cap XII 6.875%	765,280	674,542
30,153	Barclay's Bank 6.625%	791,459	654,923
30,440	Citigroup Preferred A	801,359	550,051
29,894	Citigroup Cap XIV	783,797	605,353
30,722	Citigroup Cap XV 6.5%	775,650	597,543
31,039	Citigroup Cap XVI 6.45%	765,279	589,431
31,256	Citigroup Cap XVII 6.35%	765,288	593,864
30,921	BD Cap Trust VIII 6.375%	787,683	655,834
30,946	Freddie Mac 5.6%	765,236	595,711
30,368	Freddie Mac 5.9%	765,274	625,277
29,928	Goldman Sachs 6.2%	775,715	685,052
30,297	HSBC 6.36%	794,852	613,514

(continued on following page)

Number of Shares		Cost (US$)	Market Value (US$)
(continued from previous page)			
31,248	HSBC Holdings Preferred	792,092	636,522
30,045	JPM XIX 6.63%	766,132	657,985
31,059	JPM XVI 6.375%	784,079	642,300
31,311	Lehman Brothers Cap VI-N	785,737	638,744
30,810	MS Cap VI 6.6%	785,753	617,740
30,786	MS Cap VII 6.6%	774,586	603,713
31,394	MA Cap VIII 6.45%	765,282	619,090
31,635	Merrill Lynch CII 6.45%	765,298	610,239
31,200	Merrill Lynch Cpl 6.45%	764,712	606,216
29,905	Merrill Series 3 6.375%	777,767	599,296
30,699	Prudential Securities PLC 6.5%	790,865	619,506
32,142	Public Storage 6.45%	794,154	605,877
30,673	Public Storage 6.75% E	783,186	601,498
30,494	Public Storage 6.75% L	766,908	599,207
31,196	RBS 6.125% Series R	765,266	595,844
30,958	RBS 6.25%	796,072	595,942
30,636	RBS 6.35%	790,163	601,385
32,082	USB Cap XII 6.3%	765,291	638,432
33,494	USB Cap VI 5.75%	772,897	646,099
33,288	USB Cap VII 5.875%	795,810	650,448
31,491	USB Cap VIII 6.35%	785,638	632,339
31,046	USB Cap X 6.5%	785,205	651,966
30,541	USB Cap XI 6.6%	776,775	645,942
31,724	Wachovia Cap IV	765,294	635,432
31,400	Weingarten Realty 6.5%	765,438	609,160
		$ 32,742,078	$ 26,156,248
Forward Cash and Dividend Receivable			894,075
Total Forward (US$)			27,050,323
Total Forward (Cdn$)			26,814,985
Foreign Exchange Hedge Adjustment			(342,954)
Total Forward Agreement (Cdn$)			$ 26,472,031

The forward agreement will terminate on December 31, 2016. The Corporation may elect to partially pre-settle the forward from time to time in order to fund (i) quarterly dividend payments to its preferred shareholders, (ii) liabilities and expenses of the Corporation and (iii) share buy-backs and redemptions by the Corporation.

Financial Preferred pays a forward fee to TDGF calculated and payable quarterly in arrears at an annual rate of 0.40% of the value of U.S. Securities in the portfolio. For the year ended December 31, 2007, the Corporation recorded an expense of $129,405 (2006 - $15,000) relating to the forward fee.

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Corporate Information

ADMINISTRATORS
Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
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Toll Free: 1 877 261-9674
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INDEPENDENT REVIEW COMMITTEE
Stephen Allan – Chairman
John Watson
Duane Keinick

DIRECTORS AND OFFICERS
Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer
Joseph F. MacDonald - Executive V.P. Sales & Marketing

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AUDITORS
PricewaterhouseCoopers LLP
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Calgary, Alberta T2P 5L3

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed

CITADEL

GROUP OF FUNDS™

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